Fiscal Note

Fiscal Services Division

HF 511 – Farm Property Inheritance Tax Exemption (LSB 1880HV)
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Fiscal Note Version – New

Description

House File 511 creates an inheritance tax exemption for persons inheriting Iowa farmland, as long as the person or entity inheriting is sufficiently related to the decedent. This Bill creates a claw-back provision that requires the tax to be paid, with interest, if the person benefiting from the exemption later sells the farm property, within 10 years of the inheritance, to a person that is not sufficiently related to the decedent. The claw-back provision is created through a property lien to be filed on all inherited property where the new exemption provides a benefit.

For the exemption, farm property is defined as real farm property of 10 acres or more and the related farm machinery. Farm property also includes any residence, garage, and farm building on the property. The exemption is effective with deaths occurring on or after July 1, 2013.

Background

Current Iowa law exempts a spouse, or stepchild, as well as all linear descendants and ascendants (parents and grandparents, children and grandchildren) of the decedent from the Iowa inheritance tax. Other related individuals, such as brothers, sisters, nieces, or nephews, may have the inheritance taxed at 5.0% to 10.0% of its net value, depending on the value of the inheritance and the relationship to the decedent. For unrelated persons, the tax rate is 10.0% to 15.0%. For-profit corporations are taxed at 15.0% of the inheritance.

Assumptions

The Iowa inheritance tax return requires a listing of the type of real property involved in the estate along with the value of each type of real property. The Department of Revenue reviewed 112 recent inheritance tax returns (approximately 5.0% of annual returns) and noted that 24 returns (21.4%) listed farmland as part of the estate. The Department calculated the actual average tax rate for each return by dividing the tax owed by the net inherited value. The Department then calculated the net inherited value without the farmland and reapplied the tax rate. The tax reduction associated with farmland equaled 48.1% of the tax due on all 112 sample returns.

The Department then applied the 48.1% tax reduction to projected State General Fund inheritance tax revenue, beginning with the fourth quarter of FY 2014.

In this analysis, it was assumed that all taxpayers who take the exemption maintain the ownership of the property for the required ten years and therefor no revenue would be generated by the claw-back provision.

Fiscal Impact

The inheritance tax exemption for farmland created in this Bill is projected to reduce net General Fund revenue by the following amounts:

- FY 2014 = $ -11.5 million
- FY 2015 = $ -49.3 million
- FY 2016 = $ -51.1 million

- FY 2017 = $ -54.5 million

The exemption will continue to have a General Fund impact in future fiscal years, with the impact projected to be similar to FY 2017. Significant changes in the value of farmland will in turn have a significant impact on the General Fund revenue reduction.

The Department of Revenue estimates that administering the exemption, including tracking the property liens that will result from the exemptions, will require one additional Revenue Examiner position, at an annual salary, benefits, and support cost of $77,000.

Source

Department of Revenue

/s/ Holly M. Lyons

March 20, 2013

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.